



## Joint Legislative Audit and Review Commission 2000 Fiscal Impact Review

**Bill Number:** HB1506 as Introduced  
**Review Requested By:** Delegate Cranwell  
**Chairman of:** House Finance

### **Concur**

JLARC Staff concur with the fiscal impact statement referred for review

### **Concur with Reservations**

With the reservations noted below, JLARC staff concur with the fiscal impact statement referred for review

### **X Non-Concur**

As noted below, JLARC staff do not concur with the fiscal impact statement referred for review.

### **Bill Summary**

Requires the referendum on an optional local income tax to be held at the general election in November of 2000; allows the revenues from such tax to be used also for educational purposes, in addition to transportation purposes; deletes provisions which would prevent a locality that levies the local income tax from reducing the total amount of its annual general fund appropriations for transportation below the amount appropriated prior to levying the tax; and repeals the five-year sunset clause.

### **Fiscal Implications**

JLARC staff concludes that HB 1506 would have no direct fiscal impact on the Commonwealth. The fiscal impact statement reviewed here estimates administrative costs applicable to current law, not the direct costs attributable to implementing HB 1506. Further, the administrative cost estimate of \$4,261,730 is approximately twice that which would be expected for the localities covered by the legislation (the Department of Taxation has agreed that the administrative cost estimates should be reduced).

This bill amends current statute to allow localities that are eligible to enact a local income tax to spend the tax revenue for education and transportation purposes. The current statute (§§ 58.1-540 and 58.1-548) limits the use of this local income tax revenue to transportation purposes only. The localities eligible to enact a local income tax under current law are: Arlington County, Fairfax County, Loudoun County, Prince William County, Alexandria, Fairfax City, Falls Church, Manassas, Manassas Park, and Norfolk.

The bill requires that the referendum required to enact the local income tax be held during the next general election in November 2000. Failure to hold the referendum at that time would effectively sunset the provisions of § 58.1-540. However, the current five year limit on the collection of the local income tax (as specified in § 58.1-549) is repealed by this bill. In addition, this bill repeals part of § 58.1-548 pertaining to the maintenance of current funding levels after the income tax is enacted. The current law requires that localities use local income tax revenue as funds "in addition to those allocated to the county or city" from the State (for transportation purposes). The current law also requires that the locality "shall not reduce the total amount of its annual general fund appropriations, exclusive of the revenues derived from the tax" for the designated purposes (again, currently limited to transportation purposes). This bill would repeal these requirements.

Despite the fact that none of the eligible localities have enacted a local income tax, the authority to enact a local income tax is already granted under the provisions of §58.1-540. Since those provisions will continue with or without passage of this bill, the administrative costs presented in the fiscal impact statement prepared by the Department of Taxation (the Department) can not be attributed to HB 1506,

but to the current law. The potential revenue impact on the localities eligible to enact a local income tax is also not attributable to this bill for the same reason.

Even if the provisions of this bill were to influence localities to attempt to enact a local income tax, administrative costs of the Department are fully reimbursable from the local income tax revenue collected, according to § 58.1-548. The Department would have to provide the necessary start-up costs prior to revenue being collected, but these start-up costs, and the annual costs of administering the program would then be reimbursed from the revenues collected. The Department is currently authorized by the 1999 Appropriations Act to tap the Transportation Trust Fund for these start-up costs. The Budget Bill (HB 30) continues this authorization. If the Department did have to pull money from the Transportation Trust Fund, this would result in a loss of investment income from the General Account Composite (of which the Transportation Trust Fund is part). Assuming that the maximum first year start-up cost of \$2,155,465 (discussed below) is pulled from the Transportation Trust Fund, and assuming a rate of return of 5.71 percent (the FY99 yield) this would result in a loss of investment income of approximately \$123,077 for the General Account Composite. Clearly, if the yield changes, this loss would change as well (Treasury estimates the Composite Yield for FY00 at 5.46 percent).

Further, the Department of Taxation's administrative cost estimates appear to be overstated as well. The Department estimates the cost of implementing the local income tax in all of the eligible localities to be as much as \$4,261,730 in the first year, \$1,085,730 in the second year, and \$638,530 annually thereafter. According to the fiscal impact statement prepared by the Department, these costs would decrease if less than all the localities enact the tax. According to the table outlining the incremental administrative costs (based on the number of returns), the figures highlighted by the Department are based upon administering 2.5 million returns. In 1997 (the last year for which data is available) the eligible localities only had 840,677 returns. Using the Department's table, this would indicate administrative costs of \$2,155,465 in the first year, \$871,465 in the second year, and \$424,265 annually thereafter (based on 1 million returns filed).

It is worth noting that the Department raises a valid policy issue concerning use of the Transportation Trust Fund for start-up costs given that under this bill, funds could be used for both transportation purposes and educational purposes.

#### **Budget Amendment Necessary**

No

#### **Agencies Affected**

Localities that are eligible for and actually enact a local income tax.

**Date Released, Prepared By:** 02/07/2000; Steve Ford

JLARC Staff offer the above Fiscal Impact Review in Accordance with Item 16K of Chapter 935 (1999 Acts of Assembly). JLARC Fiscal Impact Reviews do not comment on the merits of the bill under review.